



## Informal Communication and the Hungarian Economy in the Early 1920s<sup>1</sup>

(The research is in progress)

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A few months ago I was asked to hold a presentation about the importance of the informal communication and the Great Depression (1929/33) and the relation between the two. First I was scared of the task, because I have never dealt with this topic in details before. During writing the paper I realized how beneficial was to expand in space and time my research topic that I will talk about today. The reason behind is that we can't understand a Hungarian historical event without the proper contextualization. Consequently, the only way of interpretation, if we analyze the Hungarian issue from a global perspective. Why? Due to the fact, that Hungary's economic possibilities were so limited, that only those projects had the chance to be realized which gave a reaction to a concrete international plan. However I have applied this method before, I was surprised by the results. On the other hand it worth to evaluate the events in the broader time interval.

In the first part of my paper let me introduce the frames in between we can define the topic. First I will talk about the informal communication, which means the private, unofficial, free, spontaneous communication in between social groups and institutions. What is the importance of the informal communication and the Great Depression, and what is the connection.

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The answer is the following. According to a commonly accepted idea the economic and financial collapse in 1929 happened because of the insufficient way the peace treaties handled the economic and financial questions. Furthermore, if we add that mostly the economic crisis and its consequences helped Hitler to take over the power contributing to erupt the World War I, then the responsibility of the Versailles peace treaties are multiplied.

What do we know about the order after Versailles? One thing is for sure: the system was created in order to define Europe's future for a long time in an economic and power political sense, regarding only the emotional, strategic, security policy interests of the victorious powers. The result was the European countries were compelled to be in a constant confrontation, not just the victorious powers, whom tried to keep the status-quo, but also the defeated nations who had the hunger for revision. All this happened when the first signs of the Great Depression had already appeared. One example of this: in the first third of the 1920's Russia and the Southeast European countries joined the agricultural world trade again caused a crisis by overproducing grain because the new grain producer countries and continents whom took over the producing during the World War I didn't stop their activities either.

In this stage of the crisis collaboration without discrimination would be an indispensable condition in order to avoid the great fall. Back that time it was just a conjecture that this closed way of thinking would lead to a crisis. The reason behind is that lot of economic difficulties appeared suddenly that would needed to be treated in an international level. However the political atmosphere was not best for cooperation not just because the politicians of loser powers were not equal to each other, but also because the frames of international collaboration were missing, there were no international regulations, neither institution. This is why the emphasis had shifted from the formal communication to the informal level and to the channels of it.

Our first conclusion is that cooperation is such an instinctive strategy which finds it way no matter whether the required conditions are constructed or not. It disappears from our eyes as an underground stream and appears again in the informal level. Before I



start to illustrate this phenomenon by examples from the 1920's Europe and Hungary, let's see, how the process of private information exchange can be grabbed.

Since this analysis concerns the period between the two World Wars, I just only analyze the written documents within the verbal channels: private mails, semiofficial documents, protocols, description of events that were written for its own sake, furthermore every kind of report which has no official aim and was written without any external pressure. What is in my focus? The message itself, the sender – the communicator, the source of the communication, the channel of the communication and the recipient – the communicant. Nevertheless I also have to analyze personality of the participants and the processes which influence the exchange of information. With the help of this method, we are able to discover many things, but because of the dearth of resources, the possibilities of the research are limited.

Ten years ago, when I had been working as a PhD student in the National Bank of Nederland, I noticed an interesting phenomenon. Back in time, the bank's president was Gerard Vissering, who collaborated with his international colleagues in the form of informal meetings, and soon the representatives of the loser countries started to attend to these meetings. They were such economic and financial experts, who early realized that the destiny of nations, whether they are losers or winners, is intertwined therefore they accepted that their future should be based upon cooperation, which was upheld – lack of a better solution – in an informal way.

In connection with the statement above, we should answer two questions. Who were these experts? And what was their motivation that made them to coop when the political atmosphere was full with political confrontations? One of them, Frank A. Vanderlip, was the earliest supporter of cooperation. He was an American banker, who started his career as a journalist, then he worked in the Ministry of Finance and later he became the head of the National City Bank (1909–1919) in 1919. During the spring of 1919 (negotiations happened at the same time in Versailles), he had already initiated to international collaboration.



The fire – as we said – is dangerous for everyone, if there is a fire alarm in only one house. To ensure that everyone is protected, fire alarm should be installed in every house, otherwise no one is in safe.

Vanderlip seemingly felt the presage of the crisis because he said that it is not enough to find a solution for the economic problems in one country but it is needed in every country of Europe. His realization was followed by acts: he travelled to Netherlands and negotiated with other European bankers about his concept. As a result, two unofficial meeting was held in Amsterdam during the fall of 1919. Vissering, the head of The Dutch Bank (1912–1931) was the host, he guided the meetings in his own house, intentionally in secret, closing out the media and even his own secretary. We know what happened there from his own records that he made for only himself. At the second meeting - this was expanded with the participation of Northern European experts ( J. M. Keynes, P. Warburg, G. Vissering, and other French, Dutch, and Northern European bankers, and a few financial expert)- it was decided to establish an international forum which is targeting to analyze the economic problems coming from the wrong provisions of the Paris peace system and trying to solve these issues.

It can be concluded that two major things were realized by them. First, it is necessary to deal with the economic questions and these issues cannot be solved in a national level, but international collaboration is needed. Secondly, the Warburg solution also highlights that before the therapy is defined, the diagnosis has to be established. It refers to the fact that the attitude of the experts towards the questions was consciously constructive. The international forum that was established by this small circle of bankers was the International Financial Conference at Brussels in the fall of 1920, which brought together the specialists of 39 countries, including the loser ones too. Everything had started at this conference. The experts whom later started to collaborate got to know each other here. The informal channel of communication, which provided the basis of cooperation was created here.

“It is easier to imagine than to describe the precise; means by which this great change was effected. The courtesy of the Belgian Government in placing the Chamber of



Deputies at the disposal of the Conference had a good deal to do with it. For the lobbies and the long reading-room, the library, the tea-room and smoking-room were ideal places for appearing to “waste time” while really "getting to business" far more usefully than if the enthusiasts who interpreted too literally the functions of the Conference, had had their way. After all, a hundred people had to get to know one another; they lived at fifteen or twenty different addresses, in legations, hotels, or private houses all over the town, some at the bottom and some at the top of the hill on which Brussels is built. But they got together assiduously, dined conscientiously in parties of four and five and six, turned to good use the midday intervals in order to eat corrosive luncheons and struggle manfully with the international patois of French and English; in fact, at the end of ten days, with nothing whatever to show on paper, they had none the less assured the success of the Brussels Conference.” (Siepmann, H.A.: The International Financial Conference at Brussels. Economic Journal Vol. XXX. 1920 December, p. 445.)

The conference was organized under the aegis of the League of Nations just like the each further on. First in Cannes, 1921, then in Genoa 1922, Geneva 1927, London 1933 only to mention the most important ones. This fact - that the node of informal communication was the League of Nations and the Economic and Financial Committee within – justifies that the lack of international cooperation and institutions caused a huge problem, but this problem was found and realized bearing in mind the possibilities and capabilities. Nevertheless frames were needed to raise the unofficial decisions to an official level. The following anecdote from Arthur Salter, the member of the Reparation Committee, represents the differences in accommodation to the situation and differences according to the approaches occurred at the Conference at Cannes in 1921.

“At the Conference of Cannes in 1921 Robert Horn, then Chancellor of the Exchequer, told me that Lloyd George wished me to be Secretary-General of the forthcoming Genoa Conference which he was then planning. I asked for time to consider and to consult the Reparation Commission whose servant I was. Horne replied, ‘I don’t think you realize that I am speaking for the Prime Minister, who can surely give an order to a British Civil Servant.’ I said that I was an international, not a national, official and was



not in fact, strange as it might seem, under the orders of the British Prime Minister. 'What on earth is an international official?' said Horne. 'Is he both British and non-British? Is he a – hermaphrodite?' (Arthur Salter: *Memoirs of a Public Servant*, p.160, Faber and Faber, London, 1961.)

Later in 1922 Arthur Salter, 'the confirmed international' became the head of a department established within the League of Nations, and which is, in my opinion was the center of the informal collaboration. This presumption is seemed to be confirmed by the fact that many British members of this department played a key role in Montagu Norman's informal network of contacts. He was the head of the Bank of England and one of the most influential financial experts of his age.

The activities of Norman show it well what motivated the person to international collaboration. As the head of an internationally significant institute he could validate his will more efficiently than a simple expert. In spite of this, the number and the importance of his informal communication relations are remarkable. The driving force behind the pursuit of this ambitious and extraordinary hardworking man was to keep London's significant role in world economy. However, after he realized that the tense political atmosphere is actually preventing London to keep her position, he started informal cooperation with those colleagues whom worked on the reparation of Europe's economy. As a result of these collaborations a suggestion was added to the resolutions of the Genoa Conference proposing to support the East Central European area by providing credit for these countries. It was not the success of the Conference but of the personal ambitions and informal relations of Montague Norman.

The other example has a Hungarian aspect, as Norman's interest towards this East Central region was motivated by the attempt to reconstruct the British economic potential. In parallel with the weakening of Britain's position, America became stronger. Norman did a lot to impede this process. Since there was a financial vacuum after the World War I, Norman was striving to increase the importance of Font Sterling compared to USD. There was a fear that USD will gain prominence, because USD was the only



currency that could be freely exchanged to gold and the area's depreciated currency would be substituted with another, stable currency. This is why it was so important to Norman to make the Pound stable again before the continent's reconstruction begins. Here comes the Hungarian National Bank in the picture. Norman wanted this newly established institution have a leading role in the Hungarian financial and currency policy.

According to the establishment of the Hungarian National Bank in 1924 Norman's interest and motivation – in spite of the unfavorable political atmosphere and the narrow way in which the economic and foreign policy could move – he made the Hungarian aspiration successful to get credit which could provide the progress of economy, (in one hand it could balance the national budget and on the other hand it could stop the inflation) and it also made the establishment of the Hungarian National Bank, possible.

At this point I am trying to summarize my conclusions. During the informal communication the experts applied cooperation as a strategy to validate their interests and to handle the crisis. The concept based upon cooperation found the excessive influence of politics and the government harmful.

Back to the title we can conclude that the informal communication was the only possibility for Hungary to validate her interests. Since Hungary was a looser country, she could only communicate on an informal level based on the principles of communication systems, and could validate her interest always being connected to an international opportunity. We can raise the question by right that on what basis, and according to which frames did this communication system – which consisted main and sub-systems, and in which diplomacy meant the system's surface – worked.

If we compared this system to an orange than we can say that diplomacy is the peel and the pulp – which is the informal network – we hardly dealt before: however Hungary could only prevail indirectly, through a sub-system meaning that the interests should always be compatible with the main stream. Maybe these assumptions were credible but how can they be certified?



Otherwise: How we can make this topic researchable. If we suppose that this is a system that we want to understand the way in which it works, then we can use the system theories since systems are describable. We can examine how it works and what gives its energy and dynamics. It seems to be the most ideal in our case is to examine the network and make a model of it. This method was applied by physicists and biologists many times before. The question is whether it is usable in the case of history. Based on the fact that the human systems work just the same as societies than I have to study the methods and mentality of other disciplines and then I have to apply them. The temptation is so enormous because the parallel empirical researches, I encounter each day, made by physicists and biologists are so astonishing. The theory of hidden networks and how the weak relations can stabilize these networks is inspiring the mentality of historians. In this phase of the research I think it's natural to end my presentation with a question: What do you think about this? Have you ever faced such a dilemma?